

Financial Reserves Policy model updates and analysis summary - 04/02/2018

BPA has two updates for the Financial Reserves Policy phase-in implementation public process. The first update is a correction to modeling results shared at the March 20 public meeting. The modeling of the “BP-18 Initial Proposal” scenario had been performed incorrectly and an updated version is now available. The second update is the modeling of additional FRP parameters which was done in response to some of the comments and questions received during the same meeting.

Update 1 - modeling error correction:

At the March 20 meeting, BPA discussed five alternatives for the FRP. The “BP-18 Initial Proposal” alternative was modeled incorrectly, resulting in inaccurate statistics on page 11 of the presentation. The models posted on March 21 contained the same inaccuracies.

The BP-18 Initial Proposal had been modeled so that the “Good Year Ratchet” mechanism could adjust the cost recovery adjustment clause threshold up *every year* of the rate period if financial results were good. The BP-18 Initial Proposal actually proposed a “Good Year Ratchet” that could adjust the CRAC threshold up *every rate period*.

The models with “V3” have been updated to accurately reflect the BP-18 Initial Proposal. Additionally, slide 11 in the “Financial Reserves presentation – slide deck” has been updated to reflect the corrected statistics.

Update 2 - additional scenarios:

At the March 20 meeting, participants requested analysis of the effect of varying surcharge (or planned net revenues for risk) levels, while leaving the CRAC threshold at \$0. BPA performed an analysis of surcharge levels set at \$10 million increments between \$0 and \$60 million using both models. Those models are now posted as “BP-18 FRP Analysis Model V3_Surcharge Levels” and “FRP atRisk Model V3_Surcharge Levels.” The table below summarizes the results of all modeled scenarios.

BPA is still developing a historical analysis of the effects of the FRP alternatives, also known as backcasting. The results of that analysis will be posted to the FRP web page when completed.

Combined Financial Reserves Policy analysis summary

			Annual Cost of Risk \$M			
<i>Prior Reported tests; GYR values corrected</i>	Agency < 30 days cash 2 years	Achieved SS by yr 10?	during phase in (yr 3-10) After phase in (yr 11-20)			
			over all 3-20			
	BP-16 SQ (\$0 PNRR, CRAC at \$0)	21.1%	56.7%	18.4	31	9
	BP-18 BPA IP: Good-Year Ratchet	12.8%	70.1%	23.2	38	12
	BP-18 BPA Alt: \$30m PNRR, 1-time ratchet	12.0%	68.8%	23.0	41	9
	BP18 ROD: \$20M PNRR, 1-time ratchet	14.5%	65.2%	22.7	38	10
	\$40M Surcharge	11.4%	74.4%	20.0	41	4
<i>Surcharge Levels; CRAC remains at \$0, 100% up to \$300M</i>						
\$0M Surcharge	20.4%	59.4%	15.9	30	4	
\$10M Surcharge	17.8%	64.0%	17.2	33	5	
\$20M Surcharge	15.4%	67.5%	18.1	36	4	
\$30M Surcharge	13.4%	71.2%	19.2	38	4	
\$40M Surcharge	11.4%	74.6%	20.0	40	4	
\$50M Surcharge	9.9%	79.0%	20.8	43	3	
\$60M Surcharge	8.4%	81.1%	21.6	45	3	